ship, and to disenfranchise a large number of voters. Influenced, however, by Herr Hitler's bitter denunciations in the Reichstag on September 15, and by a further *démarche* of the three Powers on the 12th, the Lithuanian Government at last agreed to make certain concessions with regard to the German parties and to the conduct of the elections, which were watched by the British *Chargé d'affaires* at Kaunas, and were on the whole fairly conducted. The net result of all these efforts was the election of twenty-four candidates of the *Einheitsliste* and five Lithuanians; thus the latter failed to gain a single seat.

The usual post-election period of appeasement ensued; for—after the failure of two attempts to form a Directorate under a Lithuanian President—M. Baldžius, a Lithuanian Memellander and a member of the *Einheitsliste*, was appointed President.[1] The new Directorate, which received a vote of confidence from the Diet in December, repealed a number of anti-Nazi measures and began the reinstatement of officials who had been dismissed on political grounds. During 1936, moreover, there was a marked improvement in German-Lithuanian relations, beginning with a Lithuanian request for British mediation at the end of 1935, and continuing with a *rapprochement* initiated by Germany with startling suddenness in the spring of 1936;[2] and economic conditions in Memel were considerably benefited by a frontier traffic agreement concluded between the two countries in the following August. In October M. Kurkauskas resigned and was replaced by M. Kubilius, a Lithuanian lawyer who had hitherto played little part in political life. Although there were fresh arrests and trials of Nazis during 1936–7, on the other hand a large number of amnesties were granted,[3] and in February 1937 the British Under-Secretary for Foreign Affairs was able to inform the House of Commons that 'the political position in the Memel territory is now generally satisfactory'.[4]

Note on the Economic Position of Memel

The economic prosperity of the Memel Territory is now entirely dependent upon that of Lithuania. This is primarily due to the fact

[1] In January 1936 M. Baldžius was replaced by M. Diomba, also a member of the *Einheitsliste*.

[2] See above, p. 88.

[3] Most of the National-Socialists imprisoned have now been released, including Pastor von Sass (in 1937) and Dr. Neumann (in 1938).

[4] Unfortunately, however, a fresh occasion for agitation was provided by the Kaunas Government's law of September 6, 1937, expropriating, against compensation, some 440 hectares of territory belonging to 24 German landowners, for military purposes and harbour development. A violent campaign ensued in the German press; and on September 25 M. Baldžius informed the Memel Diet that the Directorate had protested to the Governor against the law on the ground that the expropriation of property was exclusively the concern of the Memel authorities, and had declined to co-operate in its execution. The German Government themselves (although, not being signatories of the Convention, they had no

that Memel is at present Lithuania's only practicable access to the sea. Moreover, since 1923 a large number of important industries have been established in and near the town with the object of supplying the Lithuanian hinterland; and thus a large proportion of Lithuania's industries are located in Memel. While these two circumstances have undoubtedly led to a noteworthy increase in the economic importance of Memel since the War, Memel has suffered much, on the other hand, through the closing of the Polish-Lithuanian frontier since 1920; for, as the result, what was formerly her chief source of income, namely the handling of timber floated down the Niemen from Poland, has ceased to exist.

At present over three-quarters of Lithuania's exports by value, and over two-thirds of her imports, are effected by sea through the port of Memel. In addition, goods are imported through Memel in transit for Russia and sometimes Latvia, and the same is true of exports. Traffic through Memel (in net registered tons) is now more than three-quarters that of Tallinn. During the last few years the practice of importing or exporting through the Latvian port of Liepāja has somewhat decreased in favour of Memel.

To this the completion in 1932 of the Siauliai–Telsiai–Kretinga railway has greatly contributed, since previously railway communication between Central Lithuania and Memel involved a long detour, either to the south, almost as far as Tilsit, or to the north through Latvian territory; and Liepāja was thus nearer to Kaunas than was Memel. The result of this increase can be seen from the following table:

TABLE 12. *Imports, Exports, and Shipping through Memel, 1932–7*

	Exports from Memel by sea (mill. lits)	*Percentage of total Lithuanian exports*	*Imports into Memel by sea (mill. lits)*	*Percentage of total Lithuanian imports*	*Shipping entered through Memel ('000 net registered tons)*
1932	123·6	65·4	78·3	46·9	519·7
1933	106·6	66·6	79·0	55·6	600·7
1934	97·3	66·1	83·9	60·5	622·6
1935	118·2	77·6	80·0	62·2	691·3
1936	149·4	78·4	106·2	68·0	788·5
1937	157·0	75·3	145·0	68·0	844·7

Out of the 844,700 net registered tons of shipping entering Memel during 1937, 294,400 tons were German, 150,000 Swedish, and 145,800

locus standi) protested at Kaunas, but were told that the law was valid under the Statute and could not be altered, although guarantees could be given that it would not be used for other than its ostensible purpose.

1: Anonymous U-4 (no date)1938 RB1 Baltic States/61

B. ECONOMIC AND FINANCIAL

INTRODUCTION

THE three Baltic States cover an area of rather more than 65,000 /33
square miles, and are thus slightly larger than England and Wales. The country is for the most part flat, and rarely rises much more than seven or eight hundred feet above sea-level, except in the so-called Lithuanian heights in the south-east of Lithuania. For the most part, also, the soil is of glacial origin, consisting partly of sand, mixtures of sand and clay, sometimes very fertile, and pure clay, which is often waterlogged. There are thus numerous marshes, heaths, bogs, and lakes. The three States lie roughly between latitudes 54° and 60° N., but the continental nature of the country renders the winters long and hard; there is a comparatively heavy snowfall, and even the large rivers such as the Nemunas (Niemen), the Daugava (Dvina), and the Lielupe (Aa) become frozen. Much of the country, especially where the soil is sandy, is covered with timber. Few mineral deposits except the shale of Estonia are yet of any commercial importance.

The total population of the three States is just over 5½ million.[1] /61
The density is greatest in Lithuania; that of Latvia and Estonia is /63
only just over half that of Lithuania. Lithuania, also, has by far the largest excess of births over deaths, though in all three countries the excess of births has tended to decline since the years immediately after the War. Lithuania, however, still has, after Poland, the highest birth-rate in Northern Europe. Yet in none of the three countries is there any great concentration of the population, and only three towns have a population of more than 100,000, namely the capital cities Riga (385,000), Tallinn (140,000), and Kaunas (105,000).[2] But /62
though there are few large towns, the proportion of the population /33
dependent on agriculture varies considerably. Of the persons gainfully occupied in Lithuania nearly 77 per cent. are engaged in agriculture, whereas the figure for Latvia is 66 per cent., and that for Estonia only 60 per cent.

[1] For population and vital statistics see Appendix I.

[2] The population of the other principal towns according to the latest figures is as follows:

Tartu	59,000	Siauliai	24,000
Liepāja	57,000	Narva	24,000
Daugavpils	45,000	Panevezys	21,000
Memel	38,000	Pärnu	21,000
Jelgava	34,000	Ventspils	16,000

Cf. Great Yarmouth 56,769, Gravesend 35,490, Canterbury 24,450.

433 These differences are due largely to the effects of the Russian domination, which has profoundly influenced the productive structure of these States. Under the Russian Empire, it is true, the Provinces which are now Estonia, Latvia, and Lithuania were all primarily agricultural, and depended also to a great extent on the large reserves of timber which they each possessed. But it is important to emphasize that, whereas Lithuania depended entirely on timber and agriculture, this was not the case with Estonia or Latvia.
[439] For, until the Russian Revolution, the economic importance of Riga, Reval, and Narva consisted in the large quantities of industrial products there manufactured from imported raw materials and supplied to the Russian Empire; and, though to a lesser extent, in their position as centres of the entrepôt trade between Russia and Western Europe. After 1918 their importance in this sense disappeared, and with it the means of paying for imports of raw materials—means formerly supplied out of the resources of a great Empire—which were needed if their industries were to continue to operate on anything like the old scale.

727 Thus the problems which the three States had to face on the
433 establishment of independence were serious. Estonia and Latvia, though equipped both by their natural position and by their extensive industrial apparatus to become important manufacturing centres, lacked both the capital and the markets necessary to bring such an aim within the realm of practical politics. Moreover, in all three countries the actual devastation caused by the War was very considerable, and the demands of reconstruction were great. In addition, there were numerous other difficulties which hindered the reorganization of the economic system. Of these may be mentioned the question of agrarian reform and the splitting up of the large estates, such as those of the Baltic Barons. A further serious problem was that of communications, for the railways, built in the time of the Russian Empire, bore little relation to the needs of the three national States. In this Lithuania was perhaps the most severely affected; and the lack of a port under her unrestricted sovereignty was a further handicap. Lithuania, again, was somewhat impeded in her work of economic reconstruction by the persistence of the Vilna dispute with Poland, her most important neighbour. Thus, though not faced with the peculiar industrial questions confronting Estonia and Latvia, Lithuania had special problems of her own which made her task fully as difficult.

727 In the event, as will be seen, these problems were met by drastic
433 solutions. Estonia and Latvia, at any rate until 1931, abandoned
234 the hope of restoring their manufacturing industries to their pre-War position, and both countries were consequently forced to develop

other forms of production. Before the War Latvia, and to a smaller extent Estonia also, had supplied St. Petersburg with butter and other dairy produce. This trade, too, was lost after the Revolution, but the fact that it existed independently of foreign supplies suggested that dairy farming might be expanded so as to assume some of the importance formerly held in their economic systems by manufacturing industry. In this the development of the co-operative principle was of great assistance, and, during the period which ended in 1931, the two countries were able to make both ends meet by exploiting their forests and developing foreign markets for their butter and bacon, while their industries were still able to supply some of their own requirements of manufactured goods. Lithuania, though lacking manufacturing industries such as those possessed by the other two countries, followed a similar policy, and her success in finding foreign markets for her agricultural produce was the more remarkable in that the commercial organization of the country immediately after the War could not be compared with that of Estonia and Latvia. To sum up, then, the period 1918–31 described in the following section was one of reconstruction and of fundamental adjustment to the new conditions both inside and outside the Baltic. On the whole this process was highly successful, and it was no fault of the Baltic States that the conditions changed with the crisis of 1929–32.

Note: Except where otherwise stated, figures given in the tables are taken from the various statistical works published by the League of Nations, such as the Statistical Annuals, the annual memoranda on Foreign Trade and Balances of Payments, and the memoranda on Public Finance. Figures have occasionally been given in Swiss francs for comparative purposes. This is the old Swiss franc, the parity of which was 25·2215 to the £ gold, not the Swiss franc current since the devaluation of September 1936.

PART I: GENERAL FEATURES OF THE POST-WAR ECONOMY OF THE BALTIC STATES, 1919–30

I. THE PRODUCTIVE SYSTEM, 1919–30

BEFORE the growth of the productive system in this period is described, reference must be made to two developments: agrarian reform and the expansion of the co-operative system.

1. SPECIAL FEATURES

(i) *Agrarian Reform.*[1]

Although the growth of peasant ownership had proceeded rather more quickly in the Baltic Provinces than in the rest of Russia, a very large proportion of the land was still owned by a few large

[1] For the political effects of this see above, pp. 29–30.

1: Anonymous U-4 (no date)1938 RB1 Baltic States RB1
Latvia
Lithuania

of minorities. The result of these reforms is that the land is distributed somewhat as follows:[1] 471 423

TABLE 14. *Number and Size of Holdings in Latvia*

Number of holdings	*Size of holding*
109,000	under 10 ha.
51,000	from 10–20 „
24,000	„ 20–30 „
21,000	„ 30–50 „
18,000	„ 50–100 „
2,000	over 100 „

Lithuania. Land reform in Lithuania had been an issue as far back as 1905, for the large owners were chiefly absentee Russians and there were few of the 'improving' Baltic Barons. The question was thus more acute than in the other Provinces. Some progress was made before the War, however, and it is calculated[2] that in 1914 about 50 per cent. of the total cultivated area was in the hands of small-holders, but chiefly in plots which were uneconomically small. The most important legislation was enacted between 1919 and 1922. Forest land, if in plots of more than 25 ha., was declared State property. Other land formerly belonging to the Russian State, the nobility, the Church, and other estates of more than 80 ha. were also declared State property and allotted in small portions to the landless, who paid a nominal price in kind or money. Compensation to the former owners was allowed in most cases, but the currency in which the payments were expressed, viz. the Ostmark, depreciated so soon and so rapidly that the real value received was usually negligible. Some of the Polish landowners who had been dispossessed appealed to the League of Nations in 1925, but only to obtain a ruling similar to that given in the case of Latvia. The consequence of the redistribution—which is still to some extent in progress—can be seen from the figures of the census of 1931:[3]

TABLE 15. *Number and Size of Holdings in Lithuania*

Number of holdings	*Size of holding*
133,000	under 10 ha.
93,000	from 10–20 „
34,000	„ 20–30 „
21,000	„ 30–50 „
6,000	„ 50–100 „
1,000	over 100 „

(ii) *The Co-operative System.*

423
433 ●

The result of these reforms was at first a considerable dislocation of the productive system and a decrease of efficiency. This was

[1] De Montfort, op. cit., pp. 113–14.
[2] Ibid., p. 114.
[3] Department of Overseas Trade: *Economic Conditions in Lithuania during 1931*, publ. 1932, p. 13.

423 particularly noticeable where the larger estates of the Baltic Barons
●433 had been split up—chiefly in Estonia and Latvia. Here, for example, farm buildings were often separated by the redistribution from the land which they had formerly served. Moreover, an entirely new class of landowners was called into being. These new small-holders were often ignorant of scientific agricultural methods, and were nearly always without means. It can therefore be seen that a whole series of problems was created by the reforms, which, throughout the period, it was the chief objective of agricultural policy to solve. The solution was found largely in the extension of the co-operative system.

474 Before the War there were numerous agricultural societies in existence in Estonia, Courland, and Livonia, and to a smaller extent in Lithuania. The idea, therefore, was not new. What was new was the notion that the pre-War agricultural associations could be developed to the point where they became the central pivot of the
[234] entire agricultural organization. The pre-War functions of these societies had been to organize savings banks, to purchase machinery for the use of members, to promote the use of artificial fertilizers, to pay for instructors, and not least to deal on the co-operative system in dairy produce. The last-named activity was, of course, essentially suited to the new conditions after the War, which had created a large number of small-holders, and it is in this direction that the development of the co-operative system was most remarkable.

474 *Estonia.* Co-operation developed in Estonia less during this period,
234 perhaps, than in the other two countries, except as regards dairy
439 farming. However, co-operative dairies increased from 60 in 1918 to 331 in 1929, and the two co-operative marketing associations soon succeeded in obtaining a market for Estonian butter abroad. Much encouragement was given by the Government, particularly as regards grading; and, by the end of the period, between 60 and 70 per cent. of Estonia's exports of butter was in the hands of these two societies. There was also a considerable extension of co-operative buying abroad,[1] mainly of agricultural machinery resold by the retail societies, while the number of societies which were formed to enable members to obtain the use of agricultural machinery increased from 28 in 1914 to about 800 in 1929. In addition, the co-operative system greatly aided the production and export of bacon, eggs, and potatoes. On the whole, however, Estonia left development rather more to the State and to individual enterprise than did Latvia or Lithuania.

000 *Latvia.* As in Estonia, the co-operative system of Latvia had been

[1] Through the Estonian Co-operative Wholesale Society, known as the E.T.K.

mentioned, there had grown up an important series of manufacturing industries before the War. Some depended on local raw materials such as timber, but, in general, the pre-War industry of these territories took the form of the conversion of imported raw materials into finished articles, which were sold in Russia. The extent of these industries may be judged from the fact that in 1910 more persons were employed in the textile, chemical, and metal industries of Latvia than the entire number of those employed in all the industries of the country in 1926. Moreover, Reval (Tallinn) was one of the most important shipbuilding bases of the Russian Empire, while at Krainholm there existed one of the largest cotton mills in the world.[1]

The War, and the establishment of independent States, changed the whole position. The Russian market, the basis of the manufacturing industry, was lost. The indispensable raw materials could no longer be imported on the pre-War scale; and, as has been seen, the mineral resources of Estonia (except for oil-shale) and Latvia are negligible from the commercial point of view. Moreover, the War had brought devastation which in many cases it would have been impossibly expensive to repair even if markets had existed; in Latvia, which was perhaps most severely affected, the retreating Russians had carried off most of the machinery which could be moved, and many of the factories were no more than empty buildings. Finally, the demands of economic nationalism required that Lithuania should make some attempt to develop manufacturing industries of her own where none had existed before.

It is impossible to trace here the steps by which some kind of order was produced from the chaos of the years immediately after the War. In general, the policy of Estonia and Latvia was to develop only those industries which were essential to local requirements, or which could exist without the Russian market. Within this limited scope, a considerable measure of success was achieved during the period. The State was occasionally able to make good the loss or destruction of machinery through foreign relief credits received immediately after the War, and when some degree of economic and political stability had been achieved in the Baltic, foreign capital—chiefly German and British—was made available to industry through the banking system. It was even possible to obtain a small footing in the export market, for the standard of living in Estonia and Latvia was comparatively low, and costs were often on a good competitive

[1] The early development of the cotton industry in Estonia was largely due to a British-trained German, Julius Knoop (1811–94), who eventually came to dominate the entire textile industry of Russia. For further details, see L. H. Jenks, *The Migration of British Capital*, New York, 1927, pp. 183–4. A fuller account will be found in *Krainholm Manufaktur 1857–1932*, privately printed by the Gesellschaft der Krainholm Manufaktur für Baumwollfabrikate, 1933.

basis. After 1926 Latvia even made an attempt to regain for her manufacturing industries some part of the Soviet market, but her success was shortlived.

The relative importance of the various manufacturing industries in Estonia and Latvia can be seen from the following table:

TABLE 21. *Number of Workmen Employed in Manufacturing Industries in 1926.**

Industry	*Estonia*	*Latvia*
Textile	8,919	5,935
Wood-working	4,389	10,061
Metallurgical	3,758	8,406
Paper and printing	3,349	5,132
Foodstuffs	1,916	8,543
Chemical	835	3,433
Other	2,683	8,160
Total	25,849	49,672

* *Estonian Year Book* for 1929, p. 108; Bilmanis, op. cit., p. 67. The figures are not strictly comparable, for the Estonian figures relate only to firms employing more than 20, or 85 per cent. of the total; moreover, it is not known whether the designations exactly correspond. They do, however, form a rough basis for comparison.

The annual value of industrial production in these countries rose to a considerable figure during the period; in 1926 it is estimated that the figure for Estonia's manufacturing industries was 98·8 million kr., or about 137 million Swiss francs, and that of Latvia as much as 311 million Swiss francs. Most, if not all, of the more important industries were located in Riga and Tallinn, with the exception of the Narva textile industry, and the shale-oil industry between Narva and Tallinn. No new industrial centres of any size were developed during these years, owing largely to the lack of capital and efficient communications. For the most part the size of the individual enterprises was small, and nearly all were dependent directly or indirectly upon the banking system for their finance, though in some cases the co-operative system and even the State were directly interested. Power was provided mainly by imported fuel, though peat was often used, and, in Estonia, shale-oil.[1]

Latvia. The timber industry was the most important branch of manufacture during the period. The timber used was very largely of Latvian origin, though Russian timber was occasionally handled. The most important section consisted of sawmills, but there were also several veneer and boxboard factories. The industry worked very largely for export oversea. Closely connected with the timber industries were the paper and pulping branches, also the cellulose

[1] However, the production of electricity in the principal plants of the five most important towns of Estonia increased from 8 to 22 million kwh. between 1923 and 1929.

438 chains, and other similar articles. Such industrial plant as there was
[727] suffered severely from the War; buildings were destroyed, machinery was carried off, and any liquid capital confiscated.

433 During the period 1918–31 there was no fundamental change in
727 the industrial structure of Lithuania proper. The period was largely one of reconstruction; and it was possible in many cases to renew plant lost in the War by the use of foreign credits. Production was to some extent assisted by tariffs, but little, if any, attempt was made to obtain a place in foreign markets. The industrial capacity of the country as a whole was, however, substantially increased by the addition to Lithuania proper of the Memel territory, for Memel
[441] possesses considerable industries such as sawmills, &c.;[1] and by 1928 it was estimated[2] that altogether about 40,000 persons were employed in manufacturing industry throughout Lithuania and the Memel Territory. As compared with the respective figures for Estonia and Latvia, this figure is small when the very much larger population of Lithuania is borne in mind. In all there were 7,250 undertakings classified as industrial enterprises, of which only 75 employed 50 or more workmen.

II. FOREIGN TRADE AND BALANCE OF PAYMENTS, 1919–30

1. General Observations

439 During the years 1919–30 these countries had to deal with peculiar difficulties in developing their foreign trade. Not only did the period of actual hostilities last until 1922, but the creation of three new independent States required the organization of three separate economic units. In Estonia and Latvia, it is true, there existed a rough basis, consisting of the commercial communities of Tallinn and Riga,[3] on which it was possible to build the necessary organization, since these ports had been two of the most considerable foreign trading centres of the Russian Empire. In Lithuania, however, there was no such organization at all, for until 1918 the territories forming that State had been more or less self-supporting, and Lithuania's foreign trade had to be created, as it were, out of a vacuum. In the event, the development of foreign trade in the Baltic States during

[1] See above, p. 102.

[2] *Lithuania, 1928*, edited by E. J. Harrison, London, 1928, p. 178.

[3] Before the War Riga had been mainly an export centre; Reval (Tallinn) an import centre. After the War this position was reversed. Riga's imports greatly exceeded her exports, while exports from Tallinn generally exceeded imports (1913 figures):

	Imports	*Exports*
Riga .	. £19,000,000	£23,000,000
Reval .	. £10,000,000	£2,400,000

PART II. THE CRISIS OF 1931 AND SUBSEQUENT DEVELOPMENTS

INTRODUCTION

THE economic system built up by the Baltic States during the period which ended in 1930 was highly sensitive to tendencies in the outside world. In other words, the system depended very largely on the maintenance of prices at or around the levels of the years 1925–30, and still more on the ability of the chief markets to continue to absorb Baltic exports. The system also presupposed that foreign capital would be available to finance foreign trade and, eventually, the larger schemes of development for which money was lacking at home.

The crisis of 1931 swept away these assumptions. There was first a catastrophic fall in the price of all the commodities produced by these States. Simultaneously the principal markets, the United Kingdom and Germany, began to restrict their imports from the Baltic countries. The result was a considerable fall both in the exchange available for imports and in the exchange reserves held by the Central Banks. This led, in turn, to the imposition of exchange restrictions and, in Estonia and eventually in Latvia, to the abandonment of the currency parities introduced after the War. Meanwhile, in order to save foreign exchange, imports had to be reduced to a small fraction of the figures attained before the crisis, with a consequently severe effect on the whole productive system. Finally, budgets were thrown into deficit and there was a general increase in public internal indebtedness.

During the years which followed 1931 the Baltic States have been adjusting themselves, gradually, and on the whole with a considerable degree of success, to the new conditions which have since prevailed. The process of adjustment has been immensely assisted by the fact that, unlike most of the States of Central and Eastern Europe, the Baltic countries did not accumulate an excessive amount of foreign indebtedness in the years before the crisis. On the contrary, one of the chief differences between the effect of the crisis in the Baltic and that in the Balkans, for example, is that none of the Baltic States has defaulted on its foreign debt.

For countries as small as the Baltic States, a policy directed towards the greatest possible isolation from the outside world—such as that pursued by Italy or Germany—was obviously out of the question. Nevertheless, the adjustment has been accompanied by a complete reorganization of the productive system. Estonia and Latvia, in order to economize exchange, have increased their production of cereals, which, as a general rule, they now no longer import. Latvia

433 has ceased to import more goods, in value, than she exports. In all three countries, though less, perhaps, in Lithuania than in the other two, the progress of industry has been considerable. But the re-
475 organization is not limited to the nature of production itself. For, especially in Estonia and Latvia, the State has gradually tended to play a more and more important part in the economic system, until its activity in some respects can be described only as State capitalism. Thus, though there has certainly been a substantial recovery in all three countries, the economic systems, at any rate of Estonia and Latvia, have emerged from the depression in a very different form from that in which they entered it.

I. PRICE MOVEMENTS AND THE PRODUCTIVE SYSTEM, 1931–7

1. General Considerations

435 The main results of the crisis of 1930–2, as has just been mentioned,
511 were severe falls in the price of the principal articles produced by the Baltic States, and an almost equally heavy decrease of consumption in their chief foreign markets. The former of these two results had a serious effect, first on the position of the agricultural population and then upon the standard of living of the whole community. Since the worst year of the crisis prices have not only ceased to fall, but have risen appreciably; in Estonia and Latvia currency depreciation and devaluation have given an additional stimulus to the rise of prices expressed in national currency. To this extent the difficulties caused by the fall of 1930–2 have been diminished. On the other hand, consumption in the chief markets of the Baltic States has improved only very gradually, and the problems
433 caused thereby have therefore been of a less transitory nature. For,
178 in order to remedy the consequent shortage of exchange, Latvia, Estonia, and, to a smaller degree, Lithuania have been forced to modify their productive systems in order to produce commodities which were formerly imported. Thus, during the years 1931–7, Estonia and Latvia have become to a very large extent self-supporting in certain of the chief foodstuffs, and in all three countries a policy of industrialization is being pursued.

2. Price Movements and their Effects

435 The extent of price movements during these years is shown in Table 32 on p. 145.

These indices, of course, include the price of a number of articles not produced in these States, especially certain imported manufactured goods in which the fall of prices was smaller than in many

Governments of these two States did much to compensate the agricultural class as a whole for falls in the price of their staple products. No such policy was possible in a country such as Lithuania, where agricultural production could not readily be increased. Here the situation was aggravated by the economic difficulties with Germany arising out of the Memel question,[1] and the position of the peasant long remained miserable. It was stated in November 1935 that 'in spite of all the relief afforded directly and indirectly by the Government, farmers are thrown back on their own resources, even to the wearing of home-spun cloth and straw shoes'.[2]

Since 1935, however, prices have risen appreciably in all three countries, and even in Lithuania, where the gold content of the currency has remained the same throughout, the increase has been substantial. The rise gathered momentum during the earlier part of 1937 and, though most prices have since fallen somewhat, the effect upon the position of the farmer has been enormous. The resulting increase in the purchasing power of the agricultural population has, in fact, been the basis of the active industrial conditions which persisted in Estonia and Latvia during 1936 and 1937–8, and of the considerable increase in Lithuania's imports in 1937, most of which are of an industrial nature.

3. Agriculture

The production of cereals over the period is shown in the following table:

Table 33. *Cereal production*

	Area under crop (thousand ha.)				*Production (thousand quintals)*				*Yield (quintals per ha.)*			
	Average 1926–30	*Average 1931–5*	*Year 1936*	*Year 1937**	*Average 1926–30*	*Average 1931–5*	*Year 1936*	*Year 1937**	*Average 1926–30*	*Average 1931–5*	*Year 1936*	*Year 1937**
Wheat												
Estonia	30	56	66	68	321	634	662	783	10·7	11·3	10·0	11·1
Latvia	61	119	129	137	731	1,632	1,435	1,715	11·8	13·7	11·1	12·5
Lithuania	163	205	196	209	1,859	2,532	2,189	2,174	11·9	12·4	11·0	10·4
Barley												
Estonia	114	107	101	89	1,139	1,034	868	819	9·9	9·7	8·6	9·2
Latvia	176	185	189	183	1,570	2,004	1,650	2,814	8·8	10·8	8·7	13·0
Lithuania	201	202	214	214	2,113	2,435	2,326	2,471	10·7	12·1	10·9	11·5
Rye												
Estonia	143	147	137	149	1,394	1,907	1,535	2,089	12·1	13·0	11·3	13·8
Latvia	254	253	258	288	2,471	3,146	2,860	4,314	9·7	12·4	11·1	14·6
Lithuania	471	496	492	510	5,184	5,691	5,414	6,009	10·8	11·4	11·0	11·8
Oats												
Estonia	144	142	138	145	1,273	1,409	1,138	1,437	8·6	9·9	8·2	9·9
Latvia	297	317	339	335	2,561	3,542	2,844	4,049	8·0	11·2	8·4	12·1
Lithuania	335	350	357	348	3,370	3,735	3,316	3,898	9·4	10·7	9·3	11·2

* 1937: provisional figures only.

[1] See below, p. 167.

[2] D.O.T.: *Economic Conditions in Lithuania, November 1935*, publ. 1936, p. 24.

The remarkable increase[1] shown in production since 1930 is partly, no doubt, due to the poor harvests in the 1926–30 period and also to the effects of the agricultural reforms carried out immediately after the War, which had scarcely had time to appear by 1930. But, both in Estonia and Latvia, the shortage of exchange induced the Government to encourage the farmers to bring more land under grain, particularly wheat, which to a large extent had been imported before this period. The average acreage under the four principal cereal crops increased by 5·1 per cent. in Estonia, 7·3 per cent. in Lithuania, and as much as 10·9 per cent. in Latvia, as between 1926–30 and 1931–5, and production of wheat was nearly doubled in Estonia between 1926–30 and 1931–5, more than doubled in Latvia. There was also a heavy increase in rye production;[2] and, as will be seen, both countries have practically ceased to import grain in normal years. Agricultural efficiency, too, has increased; in every case but one in the above table there was a rise in the yield per ha. as between 1926–30 and 1931–5. Government assistance, especially in technical education, the provision of seed, and the drainage of marsh land, was largely responsible for this development.

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Progress during these years was similar as regards most of the other principal crops, especially potatoes, where there was a remarkable increase both in production and yield:

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TABLE 34. *Potato Production*

	Area under crop (thousand ha.)				*Production (thousand quintals)*				*Yield (quintals per ha.)*			
	Average 1926–30	*Average 1931–5*	*Year 1936*	*Year 1937**	*Average 1926–30*	*Average 1931–5*	*Year 1936*	*Year 1937**	*Average 1926–30*	*Average 1931–5*	*Year 1936*	*Year 1937**
Estonia	67	70	74	76	7,870	8,742	10,306	9,160	113·0	124·9	139·3	120·5
Latvia	88	105	120	127	8,458	13,363	16,115	17,817	99·2	123·7	134·3	140·2
Lithuania	141	175	179	184	15,961	20,013	21,106	25,088	106·2	114·4	118·9	136·2

* 1937: provisional figures only.

The cultivation of flax tended to decrease somewhat, owing largely to unfavourable conditions in international markets, particularly to the competition from Russia. The decrease would no doubt have been greater but for the fact that the textile industries of Estonia and Latvia tended to increase their consumption of flax after 1931 in order to save foreign exchange. The figures are shown in Table 35. On the other hand, a really important development was the growth in the cultivation of sugar-beet in Latvia and Lithuania. This was greatly encouraged by the establishment of sugar-beet factories

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[1] It will be noted, however, that the harvest of 1936 was well below the 1931–5 average.

[2] In Estonia the Government has encouraged rye-growing since 1930 by purchasing the sur[illegible]s crop during the autumn at fixed prices.

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[248]

TABLE 35. *Flax Production*

(In thousand quintals)

	Average 1926–30	*Average 1931–5*	*Year 1936*	*Year 1937**
Estonia . . .	95	65	87	113
Latvia . . .	196	152	185	257
Lithuania . . .	330	214	288	308

* 1937: provisional figures only.

257 under Government assistance. By the end of 1936 there were two
249 such factories in operation in Lithuania and four in Latvia, and the
● 433 production of beet sugar had increased in Lithuania to an annual average of 128,000 quintals for 1931–5 as against practically nothing in the preceding five years. In Latvia the increase was from an annual average of 29,000 quintals in 1926–30 to 315,000 quintals in 1931–5.. In 1936 Lithuania's production was 243,000 quintals, and Latvia's 382,000; and imports of sugar in both countries had been reduced to almost negligible figures.

4. DAIRY FARMING AND STOCK-BREEDING

439 It has been seen how during the earlier period dairy farming and
234 stock-breeding existed largely for the export trade. The general
231 decrease of foreign trade as the result of the crisis, therefore, made it especially important for the Baltic States to give further encouragement to this branch of activity. But a large proportion of the exports of Estonia and Latvia had been taken by the United Kingdom and Germany; and it was consequently inevitable that, owing to the trade policies pursued by these countries, particularly the latter, there should be some decrease in production. Lithuania, on the other hand, did not enter the field as a producer on a large scale until just before the beginning of the crisis, and was, therefore, able to profit by the mistakes of the other countries. As the result, there has been an almost spectacular increase in her production both of butter and of bacon; and, whereas her exports of these commodities before 1930 could not be compared with those of the other two countries, she is now by far the largest bacon exporter of the three, though it is true that her exports have recently fallen off. Lithuania also exports more butter now than Estonia, and nearly as much as Latvia. For this the energetic policy pursued by the co-operative system is largely responsible, since the production and marketing both of bacon and butter is entirely in the hands of this organization.

The reason why it has been possible for Lithuania to succeed in spite of the fact that, unlike Estonia and Latvia, she has refused to depreciate her currency, is, perhaps, that the general standard of

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(b) TOTAL OF PIGS[1]
(*In thousands*)

	Estonia†	*Latvia*	*Lithuania*
Year 1913 . . .	275	557	1,358
„ 1930 . . .	290	523	1,136
„ 1936 . . .	379*	674	1,210

† 1913–14. * 1937.

439 More than half of the butter exports from these three countries, and
234 practically all the bacon exports, are now taken by the United
231 Kingdom.[2] It seems to follow that the United Kingdom is gradually assuming towards the Baltic States responsibilities very similar to those she has already assumed in the case of Denmark. As will be seen, the sterling received for the Baltic States' exports of bacon and butter is of vital importance to the exchange position.

5. MANUFACTURING INDUSTRY

● 433 The principal change in the industrial system since the crisis has
471 been the need, already mentioned, to save foreign exchange by manufacturing inside the country as far as possible what was formerly imported. The policy has been pushed furthest, largely at the instigation of the State, in Latvia and Estonia, for in these two countries the industrial apparatus required for such an experiment was to a considerable extent already in existence. In Lithuania, however, this was not the case, and industrial self-sufficiency has consequently made far less progress than in the other two countries, although when and where it has been possible advances have been made in this direction. But, in each case, the degree to which this policy can succeed is strictly limited by the fact that all three countries lack not only the essential raw materials of industry such as coal, iron, non-ferrous metals, rubber, cotton, and wool, but also the capital required for attempting the expensive process of manufacturing substitutes.

The progress made by industrialization in Estonia and Latvia can best be judged from Table 38 opposite.

464 The increase of workers employed in the textile trade, in which
438 some degree of self-sufficiency is perhaps easiest to achieve, will be noted. The increase of workers employed in 'other' industries in Estonia is due largely to the activity of the shale industry, since at the end of 1937 the extractive industries were employing about 4,500 persons; this also accounts largely for the increase in 'chemicals'. Included in 'other industries' are also nearly 3,000 persons engaged

[1] Pre-war figures for Estonia and Latvia relate to a somewhat smaller area than that of the present States.

[2] Figures are given in footnote on p. 156.

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TABLE 38. *Number of Workmen Employed in Manufacturing Industries*[1]

Industries	Estonia (enterprises employing 20 or more workers only)		Latvia (all workers)	
	1926	1937 (end)	1926	1937 (end)
Textiles	8,919	12,024	5,935	18,394
Woodworking	4,389	3,567	10,061	12,758
Metallurgical	3,758	6,384	8,406	19,541
Paper and printing	3,349	3,909	5,132	6,801
Foodstuffs	1,916	3,284	8,543	16,648
Chemical	835	2,831	3,433	5,182
Other	2,683	12,584	8,160	25,655
Total	25,849	44,583	49,672	104,979

in construction. In Latvia the increase in 'other' industries is chiefly due to the growth of activity in the clothing trade, employing over 13,000 at the end of 1937, and in building.

So far as the volume of industrial production is concerned, some indication as to developments in these two countries can be obtained from the following figures:

TABLE 39. *Indices of Industrial Production*

(1930 = 100, average for year)

	All commodities		Capital goods		Consumption goods	
	Estonia	Latvia	Estonia	Latvia	Estonia	Latvia
1930	100·0	100·0	100·0	100·0	100·0	100·0
1931	92·0	82·0	92·8	83·0	91·3	80·1
1932	79·3	75·7	78·1	53·4	78·4	78·1
1933	83·0	102·7	81·2	63·8	81·5	109·3
1934	97·7	119·8	106·3	83·3	91·5	126·9
1935	107·8	126·1	114·9	88·0	101·6	134·3
1936	121·6	131·5	133·0	103·7	112·5	138·3
1937	140·5	147·8	174·1	121·0	119·5	151·3

Estonia. Developments in Estonia's manufacturing industry since 1930 were subject to the general considerations mentioned above. Additional stimulus to industry was given by the introduction of severe import restrictions in the autumn of 1931 and of the control of the foreign exchanges. Moreover, the abandonment of the gold standard in June 1933 made it cheaper to buy raw materials abroad and to manufacture the finished article in the country than to import finished goods; and this greatly increased the development of industry. Finally, the increase in the purchasing power of the agricultural population, owing to the higher prices prevailing since 1935, led

[1] For the sources for the 1926 figures see note to Table 21, p. 117; the figures for 1937 are taken from *Eesti Statistika* for February 1938, and *Mõnda Bilstine* for March 1938.

178 to something like boom conditions during 1936 and 1937–8, when a shortage of labour and a movement towards higher wages, attracting workers from agriculture, began to be felt. The progress of industrialization during these years has largely been due to private initiative. But, in its initial stages, the State gave indirect encouragement by the imposition of import and currency restrictions, and in recent years has begun to play a more active part.

178 438 Industrial development has chiefly consisted in the further employment of plant already in existence, especially in the textile industry, where substantial progress was made on the lines already mentioned,[1] particularly in the use of home-grown flax. Considerable progress also was made in the plywood industry, mainly as the result of the building boom in Great Britain. As already stated, there was a noteworthy expansion in the shale and ancillary industries. Since 1930 plant has been greatly extended, and, by the end of 1936, the exploitation of Estonia's shale resources had reached a point where [439] it did much to compensate for the lack of other fuel.[2] It is noteworthy that, whereas the increase of industrialization in Latvia led to an increase of coal and coke imports from 4·2 per cent. of the total annual average value of imports in 1928–30 to 10·8 per cent. in 1936, in Estonia, where the progress of industrialization was nearly as great, the figure remained stable at about 1·4 per cent.

New industries also have been started since 1930. The production of artificial horn, which is made from milk, has assumed substantial proportions, and exports have steadily risen from 24 tons in 1928 to 751 tons in 1937. In the autumn of 1936 a factory was begun for the [475] manufacture of sulphate of cellulose. Negotiations are at present in progress for the erection of a plant for making superphosphate, which is to use the large deposits of phosphate near Tallinn, one of the few important mineral deposits in the Baltic States other than shale.[3] In this the State is, apparently, taking a direct interest. The State has also taken a direct interest in a brick-making concern founded in 1936.

471 ●433 *Latvia.* In general, however, the interest of the State, direct and indirect, is far greater in Latvian industry. This is a tendency which can be dated fairly accurately from the coming of the totalitarian régime in 1934. Before that date developments in industry since 1930 had been similar to those in Estonia. The first effect of the crisis was to restrict very severely the activity of the industries

[1] See above, p. 118.

[2] According to an article by the Estonian Minister in London in *The Banker* for March 1938, the output of oil-shale increased between 1920 and 1930 from 48,000 to 498,000 tons, and rose to 1,100,000 tons in 1937. Similarly, the production of crude oil increased from 10,000 tons in 1930 to 110,000 tons in 1937.

[3] *Die Börse* (Vienna), January 4, 1937; *The Banker*, March 1938.

working for export, especially the timber and plywood industries. This was followed by a general decrease of activity throughout the industries supplying the home trade, such as the textile industry, owing to the fall in agricultural purchasing power arising out of the decrease of exports. This movement was further accelerated by the credit crisis of 1931 and the moratorium on banking withdrawals; and by 1932 the monthly average total of unemployed was well over 14,000.[1]

Meanwhile, in the autumn of 1931 there was a general increase in Customs duties, and a system of import quotas and exchange restrictions was introduced. All these measures greatly increased the tendency towards industrial self-sufficiency, which now became the acknowledged policy of the Government. There was consequently a considerable increase in the activity of the consumption industries, especially the textile sections, which, as in Estonia, increased their consumption of home-grown flax. This led in turn to an increase of activity in the production goods industries. At this stage the export industries began to experience a recovery, and by the end of 1934 the building boom in the United Kingdom began to have an appreciable effect on the plywood industry and saw-mills. There was also a marked recovery in the paper and cellulose industry.

Up to this point industrial expansion had followed the normal course of recovery from a severe recession. This recovery had taken place for the most part within the limits of the existing industrial apparatus. Few fresh industries had been started, and the relations existing between industry and the State before 1930 had, for the most part, been maintained. The advent of the totalitarian system in 1934, however, has been followed by an entirely new industrial policy. This policy does not consist merely in an attempt to attain the greatest degree of self-sufficiency. Its purpose would seem rather to be the introduction of a form of State capitalism or, at any rate, a system in which the State is able to exert direct control over the industrial organization. It will be seen how the State, by its relation to the co-operative system, is able to exert a considerable degree of control over agriculture and dairy farming. This, however, is a policy which the State is generally compelled to pursue in a poor country of small farmers. That such a policy should be applied to a relatively large industrial organization, which had hitherto relied on private enterprise, was a considerable innovation.

The policy began to be put into effect first through the *Latvijas Kreditbanka*,[2] a commercial bank formed by the State in 1935. By the purchase of majority shareholdings, this organization soon

[1] I.e. demands for work according to the official returns.
[2] On this, see further pp. 184–5.

471 652 655 acquired a considerable interest in industries of a very varied nature, in determining the policy of which it is naturally instigated by the desires of the State. During 1936 and 1937, however, the State itself has been acquiring a direct shareholding interest in a number of concerns, of which may be mentioned a large metallurgical works in Riga, and a large brick factory. Even in the timber industry the Government is in a position to control auction sales, and is itself an exporter. Almost the only branch of industry which has so far remained free from the direct or indirect influence of the State is the textile manufacturing industry.[1] How far this policy will be pursued [185] it is impossible to say. The President stated in April 1937 that the Government wished the entire Latvian population to participate in the progress of industry by taking a direct shareholding interest, and appealed to the public to purchase shares in the new State brickworks, even suggesting that the State might guarantee dividends.

● 433 457 *Lithuania.* Developments in Lithuanian industry since the crisis have been on the whole inconsiderable. Though severe restrictions were placed on imports in 1935, the existing industrial system was too small to bear the strain of a thoroughgoing policy of self-sufficiency, and, in any case, the lack of foreign exchange and foreign credit has prevented the import of sufficient plant to make it possible. Nevertheless, there has been some expansion in the textile industry since 1930, and in 1936 there were as many as 5,000 persons employed in this branch, though the figure includes those employed in Memel. The result has been some decrease in the import of textile piece goods and an increase in the import of yarns and raw materials. [477] A further development of some importance has been the growth of trusts and combines, mainly in the foodstuffs and brewing industries, which have arranged for the regulation of output and the fixing of prices.[2]

II. FOREIGN TRADE AND BALANCE OF PAYMENTS, 1931–7

1. General Movement

439 It has been seen that the foreign trade of Estonia and Latvia had already begun to decrease before 1931. With the onset of the financial crisis of that year, the decrease in the trade of all three countries rapidly gathered momentum. The value of exports (expressed in Swiss francs) did not finally reach their lowest level until 1933 for

[1] The State, however, has recently taken an interest in a newly formed company concerned with the production of woollen textiles (*Frankfurter Zeitung*, August 21, 1937). It may be added that the State is interested also in shipping; see below, Appendix II, p. 191.

[2] Details are given in D.O.T.: *Economic Conditions in Lithuania, November, 1935*, publ. 1936, pp. 15–16.

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abnormal export of capital in that year was arranged without any really serious effect on the banks, and there were no important failures. Since 1935 there has been a steady improvement.

TABLE 56. *Movement of Deposits and Current Accounts with Commercial and Savings Banks*

(In millions of national currency)

At end of	I. Commercial Banks (deposits and current accounts)			II. Savings Banks (deposits only)		
	Estonia* (all commercial and principal co-operative banks)	Latvia (joint stock banks and mutual and municipal credit assocs.)	Lithuania (commercial banks and mutual credit assocs.)	Estonia (State savings bank)	Latvia (postal savings bank)	Lithuania* (State savings institution)
1929	65	92	96	3	4	2
1930	73	99	139	4	7	11
1931	60	49	140	5	8	25
1932	51	49	143	5	13	34
1933	51	51	149	6	20	39
1934	65	63	157	8	24	43
1935	74	74	155	10	49	43
1936	93	117	170	10	61	52
1937	103	173	204	10	79	60

* January 1 of following year.

IV. CONCLUSION

It has been seen that in Estonia and, superficially at any rate, in Latvia, currency manipulation has been followed by a considerable degree of recovery, while in Lithuania the position has substantially improved in the face of that country's refusal to follow their example. In spite of the fall of prices during the first half of 1938, all these countries were still enjoying a measure of prosperity greater than at any time since 1931. This recovery has been based, broadly speaking, on the gradual expansion of exports to the United Kingdom, the higher level of world prices as compared with that of the crisis years, and, so far as the internal position is concerned, on the policy of self-sufficiency dictated by the lack of foreign exchange in the years of the depression. It remains to examine how far these elements can be considered to be of a permanent nature.

It will first be seen that the case of Lithuania differs somewhat from that of the other two countries. In Lithuania the productive system has remained essentially very much what it was before the crisis of 1931. Provided, therefore, that there is no fundamental change in her economic policy, it is reasonable to suppose that Lithuania will continue to exchange agricultural produce for manufactured articles, and that the index of her prosperity will continue

433 to be the value of her exports of bacon, butter, timber, and flax which,
[457] as has been seen, are taken largely by the United Kingdom. Whether, in order to protect that market, Lithuania will be forced to realign her currency is perhaps open to question, but the fact that this step was not necessary during the crisis of 1931–5 suggests that no change is needed in her monetary policy for the moment. What is certain, however, is that her economic system has been working on too narrow a margin to permit of a rapid accumulation of capital, either in domestic currency or in *devisen*. There are no funds available for capital renewals of the more substantial kinds, or for large schemes of development. Ultimately these will be inevitable if the standard of living is not to remain exceptionally low, even for Eastern Europe; and their realization, therefore, will depend on Lithuania's ability to obtain foreign capital. In this she should be assisted by the low level of her foreign debt.

433 In Estonia and Latvia the productive system has become considerably more complex than it was before the crisis. The change, as was seen, consists largely in the increased importance of agriculture to the home consumer and the growth of industrialization. There can be little doubt as to the benefit accruing from the former of these developments in the saving of exchange on the import of cereals and other products now grown at home. So far as the latter is concerned, the advantages are, perhaps, less obvious. It is true that the volume of industrial production in both countries is probably far lower than in 1914. But before the War the industries of Estonia and Latvia were working for an assured and almost unlimited market; they now work primarily for the domestic market alone. Moreover, the lack of essential raw materials needed by industry clearly sets certain definite limits to the pursuit of self-sufficiency in this fashion. At the best, then, the saving in exchange as the result of this policy consists only in the difference between the cost of the raw materials and that of the manufactured article, and meanwhile the cost of importing the necessary machinery, &c., has been heavy, as was seen in Estonia during 1936, and still more in
[439] 1937. Thus, however far this development is pushed, both Latvia and Estonia, it would seem, will continue to rely on their exports of timber[1] and agricultural produce. Since, as in Lithuania, their free foreign exchange is derived largely from their balance of trade with the United Kingdom, the prosperity of both countries will depend in the last resort on their ability to maintain their position in that market.

000 The result of this change in the productive system, therefore, may

[1] It should be noted, however, that the extensive felling of timber may create a serious problem for all three countries in the more distant future. See above, pp. 114–15.

The result of this change in the productive system, therefore, may 433 ●
not be large in itself; but it has been accompanied by a development 471
which may assume considerable importance, namely the increase in the extent of control exercised by the State over the economic system, both in Estonia and in Latvia. As has been seen, the increase has been most remarkable in Latvia, where there has been a steady progress towards a form of State capitalism. The movement has been less noteworthy in Estonia, it is true, but the tendency plainly exists, and its importance should not be underestimated. Some attempt was made to indicate the potential dangers to the financial position of the State which may result from such a policy, but this is by no means its only disadvantage. For, like Lithuania, both Estonia and Latvia are unable to accumulate capital on a scale sufficient to enable them to finance large schemes of development themselves, and they will depend for this on their ability to borrow abroad. Their need to do so, moreover, will presumably be greater than that of Lithuania owing to the greater degree of their industrialization, even if their standard of living as a whole is somewhat higher. But the pursuit of a policy of State capitalism, and the arbitrary methods which it sometimes involves, does little to encourage prospective lenders.

In general, then, the economic prosperity of the Baltic States 439
depends largely on their export trade, and this, in turn, depends 457
largely upon the United Kingdom. Provided, therefore, that they can maintain the commercial relations they have built up with that country since 1934, and that agricultural prices do not fall substantially below present levels, the stability of their present economic existence should be assured so long as the respective Governments can avoid the dangers of State capitalism. But this means little more, in the last resort, than that the current income of the economic system will roughly suffice to cover current outgoings, and that the standard of living will remain at or around its present level. If reserves are to be accumulated, whether to ensure against a future depression or to finance the development needed to raise the standard of living, foreign capital will be indispensable.